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IRS sparks a new AT&T group fund

By Clare Minick

NEW YORK—Prompted by the Internal Revenue Service, (IRS), American Telephone & Telegraph (AT&T) will launch a new group employe trust fund next year to be funded by contributions from the parent company and its 23 subsidiaries. Those plans have total employe benefit assets of more than $20 billion.

The move may have implications for other companies moving significant numbers of employes between their subsidiaries as the plan was provoked by IRS concern that when employes were transferred from one Bell System company to another, pension assets were not transferred.

Each year 12,000 employes are transferred among Bell System companies.

"IRS regulations indicate that in the future, when employes are transferred from one company to another, the accrued pension fund assets must be transferred also." John English, pension fund administrator at AT&T told *Pensions & Investments*.

According to Mr. English, to circumvent the sticky problem of moving the assets, AT&T decided to start a group trust fund which will begin operating April 1, 1980 and will grow about $25 million a month.

It will be funded by taking 10% of the monthly contributions of the entire Bell System, which total $3 billion annually, according to Mr. English.

Mr. English stressed that the establishment of the group fund does not mean that AT&T will merge the pension assets of the subsidiary companies with the parent.

"The companies will still have 90% of the assets," he said.

The group trust fund will consist of a number of portfolios. Mr. English said there would be emphasis on passively 'managed' portfolios, both equity and fixed income.

In addition, he said he expected that both equity, real estate and international investments would be a part of the fund.

AT&T will handle the passive portfolios but will seek "the finest outside managers that money can buy" for the real estate and international investments, he said.

While the IRS hastened AT&T's action on the group trust fund concept, it has precedent at the Bell System.

In December 1978, AT&T opened up its passively-managed equity fund to all Bell subsidiaries. Mr. English said that the companies have expressed "varying degrees of interest."

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Pooled funds top 1-year inflation

By Michael Clowes

NEW YORK—Forty-percent of bank and insurance company pooled equity funds had returns greater than the inflation rate over the past 12 months, and 35% had returns greater than the Standard & Poor's 500, according to *Pensions & Investments'* Performance Evaluation Report (P.I.P.E.R.).

For the third quarter, more than 90% of the funds had returns greater than the inflation rate, but only 30% of them bettered the S&P 500.

For the latest 12 months, the median fund surveyed had a total return of 11% compared with a 12.1% total return (appreciation plus dividends) on the S&P 500, according to the report compiled by Rogers, Casey & Barksdale Inc.

For the three months ended September 30, the median return was 6.7% (not annualized), compared with a 3.1% increase in the CPI and a 7.7% return on the S&P 500.

Over three years only about 20% of the funds matched or bettered the inflation rate of 9%, but 44% managed to equal or better the S&P return of 6.5%.

Over five years, on the other hand, more than 90% of the funds provided returns in excess of the CPI's 8% a year average gain. But fewer than 25% managed to equal or better the S&P's return of 16.9% a year.

Only 7% of the funds beat the inflation rate of 7.2% over 10 years, and only 18% beat the S&P 500 return over the same period—5.9% compounded annually.

Most consistent equity funds

	5 yrs	3 yrs	1 yr	3 mo.
Bankers Life, Ia.	25.1%	14.5%	16.3%	11.2%
Confederation Life	23.9	14.7	18.3	11.4
Morgan (Inter. Cap.)	23.8	14.3	16.0	11.9
Olympic Bank	18.4	11.7	14.7	11.4
Fort Worth Nat'l.	21.4	12.4	18.0	11.6
1st Trust Corp.	23.4	14.4	16.3	11.4
Nat'l City, Cleveland	18.7	9.9	15.2	8.9

Most consistent fixed-income

1st. Pennsylvania	12.5%	8.5%	10.1%	2.3%
1st. of Minneapolis	9.6	6.5	5.5	0.1
Fidelity Bank	11.2	8.0	9.7	2.2
Mfg. Hanover	9.8	6.6	6.1	1.0
Summit Elizabeth	10.3	7.3	11.5	4.6

The best performance among the banks and insurance companies during the third quarter was 14.1% reported by the Citizens Bank in Chillicothe, Mo., followed by 12.5% reported by the First Wisconsin National Bank of Madison, Wi., and 12.4% reported by the First National Bank of Denver, Co.

For the 12 months through September, the best return was 24% by the First of Denver, followed by 21.8% by the U.S. National Bank of Oregon and 21% by the Capital National Bank of Texas.

The best investment return over 10 years was provided by First Variable Life Insurance Co. of Little Rock, Ark.—11.1%, comfortably ahead of both the inflation rate and the Standard & Poor's 500.

However, First Variable, which had been following smaller-growth companies for many years, began to add some larger companies to its portfolio last year in the belief that the smaller companies were approaching the point where they would be fully valued, and some of the larger companies were now undervalued. So far, the change in the strategy has not paid off, and the company has fallen below the median return for the latest 12 months and the latest quarter.

Bankers Life of Iowa, on the other hand, has stayed with its strategy of investing in smaller stocks, and it has continued to prosper.

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Chrysler employes may own one-third of firm

By Les Stern

WASHINGTON—Chrysler's employes could own as much as one-third of the troubled automaker through a stock ownership plan (ESOP) resulting from legislation proposed to help the faltering giant.

Under the Senate bill and a possible amendment to the House bill to aid the troubled automaker, one provision for granting $1.5 billion in aid is that $250 million of it would be financed through an ESOP.

The market value of Chrysler stock is approximately $744.5 million, based on a market price of $7.50 per share after November 9 and an average of 66,205,000 shares outstanding, according to the company's third quarter report.

Although the stock issued to the ESOP would be common in the House bill and convertible preferred in the Senate version, it would be voting stock in both cases, giving the employes approximately 33.6% control through the ESOP.

Shares would be divided equally among all Chrysler's approximately 138,000 employes. Each employe would vote his own shares.

The chances remain good that an aid package to Chrysler will contain an ESOP. It is still not certain, however, with a chief impediment possibly being significant differences in the two ESOP provisions.

According to Mary Eccles, an aide to Rep. Stan Lundine (D-N.Y.), Rep. Lundine will propose an ESOP amendment to the bill in the House Banking Committee, which would require the employes to purchase perhaps 50% of the common stock. There is no such provision in the Senate version, although one is being considered.

That would cost each employe about

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Inside

Here's a risk-free nuisance for you

4 If discount dividend reinvestment plans are so great, why are few pension sponsors demanding that their money managers use them? Probably because they are viewed as a nuisance and an administrative nightmare, says Robert Salomon of Salomon Brothers. But that doesn't wash with him. "How can fund managers, as fiduciaries, pass up a risk-less investment?", he asks.

Bull Market for securities analysts

29 Would you believe there's a bull market for securities analysts again? It's true, says one body snatcher, and for a number of logical reasons: the narrowing of Wall Street research sources has fueled the demand among institutions, approved lists are being broadened beyond 100 top stocks, and there just may be a swing away from Modern Portfolio Theory. "They (institutions) are looking for stock pickers again," says recruiter Nicholas Crispi.

Yield tilt questions—page 3

The more things change, the more . . .

62 "What I need most," said Harry Truman back in 1948, "is a good one-handed economist." He was referring, of course, to the conflicting advice he was getting at the time from his economists ("on the one hand . . . then, on the other hand"). The more things change, the more they fundamentally remain the same, or so it would seem from a sampling of economic prognostications currently out.

Compounding in sagebrush country

69 What's an investment management firm with a name like Smoot & Knoche & Co. doing out in the sagebrush country of Salt Lake City? Very nicely, thank you. With a penchant for picking stocks of companies that get themselves into tender offers, the firm has racked up a compound annual return of 10.6% on all accounts over the past eight years. One happy client is the Utah State Retirement System.

Recent fixed-income returns lag inflation

By Michael Clowes

NEW YORK—Some 30% of bank and insurance company fixed-income pooled funds have at least kept pace with inflation over the 10 years through September 30, but none have done so over the past three years or one year.

Over the past 10 years, the median fixed-income return for bank and insurance company fixed-income funds was 6.8%, compared with an inflation rate of 7.2%, as measured by the Consumer Price Index (CPI).

Over five years, more than 80% of the funds managed to equal or better the inflation rate of 8%. The median return among the funds in this period was 9.1%, compared with a return on the Salomon Brothers High Grade Bond Index of 9.5%.

In the most recent three years, however, bond returns earned by the funds have failed to keep pace with the CPI.

None of the funds managed to beat the annual inflation rate of 9% over the past three years. The biggest three-year return was 8.5% (compounded annually) by the First Pennsylvania Bank. The median return was 5.6%.

Similarly, none of them managed to beat the inflation rate in the most recent 12 months and only two beat it in the most recent quarter.

The highest one-year fixed-income return for the latest 12 months was 11.5% reported by the Summit & Elizabeth Trust Co. This was below the increase in the CPI of 12.1%. The median return was 4.6%

Summit & Elizabeth Trust also had the highest return for the September quarter, 4.6%, and the Fifth Third Bank of Cincinnati, Ohio., also beat the inflation rate with a return of 3.2%. The change in the CPI was 3.1%.

Only five institutions had fixed-income performance consistently good enough for them to rank in the top 25% of funds in all five periods examined—latest quarter, one, three, five and 10 years.

They were the First Pennsylvania Bank and Trust in Philadelphia, First National Bank of Minneapolis, Fidelity Bank in Pennsylvania, Manufacturers Hanover Trust, New York, and Summit & Elizabeth Trust in Summit, N.J.

A number of others had good long-term performance, but they have slipped out of the top 25% in recent periods. These include the Valley National Bank in Phoenix, Ariz., which has the best 10-year record with a compound annual return of 9.1%, and Connecticut General Life Insurance Co., second best over 10 years with a return of 8.7%.

Others, such as the Fifth Third Bank, steadily have been improving their performance. The Fifth Third fell just outside the top 25% over 10 years with a return of 7.2% end was in the top 25% in all other periods.

However, the most consistent fixed-income fund surveyed was that of First Pennsylvania Bank which ranked fourth over 10 years, fourth over five years, first over three years, fourth over one year, and fourth over the latest quarter.

"We follow a strategy of trying to preserve our clients' principal," according to Ray Munsch, vp at First Pennsylvania, and portfolio manager of the $120 million commingled fund.

"We think there are times in the business cycle and the interest rate cycle when it is most prudent to be out of the long-term bond market.

"Over periods of time we make major alterations in the maturity structure of our funds. We don't just slam all the assets into one area or another. It's a gradual process."

Mr. Munsch said that most quality sectors were used, but lower quality bonds were used only when the quality differentials made it worthwhile.

At present, Mr. Munsch said,

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Top quartile fixed-income managers

Commingled Fixed-Income Funds 3 Month Returns

	%
Summit & Elizabeth, NJ	4.6
Fifth Third Bank, OH	3.2
First Natl Exchange, VA	2.4
First Pennsylvania	2.3
Allied Bank, TX	2.2
Fidelity Bank, PA.	2.2
First WI Natl, Madison	2.1
Hibernia National, LA	1.6
US Trust, NY	1.6
First in Elkhart, IN	1.6
American Security, DC	1.5
Boatmen's National, MO	1.5
Security Pacific, CA	1.5
North Carolina Natl Bank	1.5
First in Albuquerque, NM	1.2
Seattle 1st Natl, WA	1.1
Texas Commerce	1.1
First of Oregon	1.0
Manufacturers Hanover, NY	1.0
The Oregon Bank	0.9
Manufacturers Detroit, MI	0.8
Ohio Citizens Trust	0.8
Central Bank Denver, CO	0.8
Mellon Bank, PA	0.8
Garden State Natl, NJ	0.7
Jefferson Trust, IL	0.7
First of Warsaw, IN	0.7
Citizens Fidelity, KY	0.6
Fidelity American, VA	0.6
Commonwealth Natl, PA	0.5
Wheeling Dollar Bank, WV	0.5
United of Denver, CO	0.5
Indiana Bank & Trust.	0.5
First Natl Jackson, MS	0.4
Marquette Natl, MN	0.4
First Merch. Richmond, VA	0.4
Mercantile Trust, MO	0.3
Virginia Natl	0.3
Seattle Trust, WA	0.3
Moline National, IL	0.2
Minnesota Mutual	0.2
First of Bartlesville, OK	0.2
Fourth Natl Tulsa, OK	0.2
Shawmut of Boston, MA	0.1
Commerce Union, TN	0.1
First of Minneapolis, MN	0.1
Chase Manhattan, NY.	0.1
Wells Fargo, CA	0.1
Boston Safe Deposit, MA	0.1
First of Racine, WI.	0.1
Kellogg Citizens Natl, WI.	0.1
Natl Bank of Detroit, MI	0.1

Commingled Fixed-Income Funds 1 Year Returns

	%
Summit & Elizabeth, NJ	11.5
First in Elkhart, IN	10.8
First Natl Exchange, VA	10.5
First Pennsylvania	10.1
Fidelity Bank, PA.	9.7
US Trust, NY.	9.4
First WI Natl, Madison.	8.9
Hibernia National, LA	8.9
Allied Bank, TX	8.7
Texas Commerce	8.7
Boatmen's National, MO	8.4
Commerce Union, TN	8.3
Central Bank Denver, CO	8.1
Fifth Third Bank, OH	7.9
Citizens Fidelity, KY	7.3
American Security, DC	7.3
Pacific Mutual, CA.	7.0
Commonwealth Natl, PA.	7.0
Security Pacific, CA	6.9
First Merch. Richmond, VA	6.8
North Carolina Natl Bank	6.7
United of Denver, CO	6.4
First of Oklahoma	6.4
First of Oregon	6.3
First Natl Jackson, MS	6.2
Manufacturers Hanover, NY	6.1
Mellon Bank, PA	6.1
Trust Co of Florida	6.1
Merchants Natl, IN	6.1
Provident National, PA	6.0
First of Bartlesville, OK	5.9
Shawmut of Boston, MA	5.8
Natl Bank of Detroit, MI	5.8
Manufacturers Detroit, MI	5.8
United California	5.8
First of Warsaw, IN	5.7
Third Natl Nashville, TN	5.7
Key Trust Co, NY	5.7
Indiana Bank & Trust.	5.6
Fidelity American, VA.	5.6
Birmingham Trust, AL	5.5
First of Minneapolis, MN	5.5
Virginia Natl	5.5
First in Albuquerque, NM	5.5
Marquette Natl, MN	5.5
New England Merchant, MA	5.5
Harris Trust, IL	5.5

Commingled Fixed-Income Funds 3 Year Returns

	%
First Pennsylvania	8.5
Hibernia National, LA	8.0
Fidelity Bank, PA.	8.0
Pacific Mutual, CA.	7.9
First Natl Exchange, VA	7.8
First WI Natl, Madison.	7.6
US Trust, NY.	7.5
Equibank, PA	7.4
Summit & Elizabeth, NJ	7.3
First of Bartlesville, OK	7.3
Ohio Citizens Trust	7.3
Boatmen's National MO	7.1
First Merch. Richmond, VA	7.0
Garden State Natl, NJ	7.0
Citizens Fidelity, KY	7.0
Fifth Third Bank, OH	7.0
Lincoln National, IN.	7.0
United California	6.9
First of Oregon	6.9
First of Oklahoma	6.9
Bank of Oklahoma	6.8
Fidelity American, VA	6.7
Texas Commerce	6.7
American Security, DC	6.7
Mellon Bank, PA	6.6
Commonwealth Natl, PA.	6.6
Manufacturers Detroit, MI	6.6
Manufacturers Hanover, NY	6.6
Equitable Trust, MD	6.6
Central Bank Denver, CO	6.5
Continental Illinois	6.5
First of Minneapolis, MN	6.5
Fourth Natl Tulsa, OK	6.4
Seattle Trust, WA	6.3
Kellogg Citizens Natl, WI.	6.3
Harris Trust, IL	6.3
Commerce Union, TN	6.3
Virginia Natl	6.3
Indiana Bank & Trust.	6.3
Mercantile Trust, MO	6.2
Colorado Natl Bank.	6.2
Security Pacific, CA	6.2
Detroit Bank & Trust, MI	6.2
Prudential, NJ	6.2
John Hancock	6.2
Connecticut General	6.2

Commingled Fixed-Income Funds 5 Year Returns

	%
Fifth Third Bank, OH	13.9
Pacific Mutual, CA.	12.7
First Tennessee, Memphis	12.6
First Pennsylvania	12.5
Fidelity Bank, PA.	11.2
Security Tr. Rochester, NY	11.1
Bank of Oklahoma	11.0
Lincoln National, IN.	11.0
Garden State Natl, NJ	11.0
Liberty Natl, OK.	10.8
Security-Peoples Trust, PA.	10.7
Ohio Citizens Trust	10.7
Texas Commerce	10.7
Fidelity American, VA	10.6
Equitable Trust, MD	10.5
Jefferson Trust, IL	10.5
Title Insurance, CA	10.4
Midlantic National, NJ	10.3
Summit & Elizabeth, NJ	10.3
Seattle 1st Natl, WA	10.2
First AM Natl Nash., TN.	10.2
John Hancock	10.2
Cleveland Trust, OH	10.1
Colorado Natl Bank.	10.0
Mercantile at Dallas, TX	10.0

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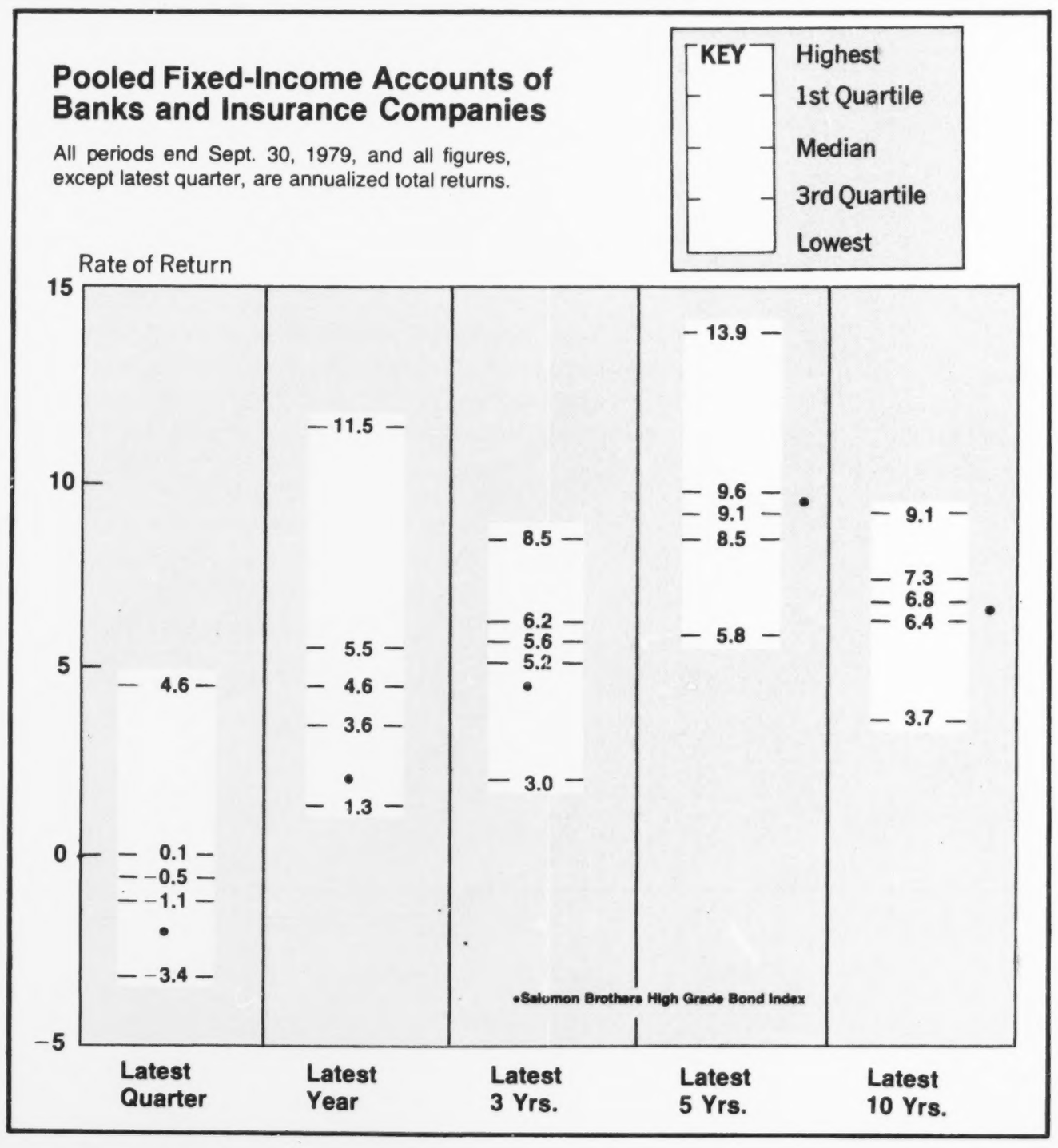
Pooled Fixed-Income Accounts of Banks and Insurance Companies

All periods end Sept. 30, 1979, and all figures, except latest quarter, are annualized total returns.



Equity returns . . .

Continued from page 1

The insurance company's fund is one of only seven in the top 25% for all five periods examined—latest quarter and one, three, five and 10 years.

Over the 10 years Bankers Life has had a compound annual total return of 9.1%, still well ahead of the inflation rate and the S&P 500.

For five years Bankers Life's compound annual return was 25.1%, for three years it was 14.5%, for the latest 12 months 16.3%, and for the latest quarter 11.2%.

According to Ralph Kosmicke, portfolio manager at Bankers Life, while the fund is still heavily invested in smaller companies, energy stocks have been added to the portfolio in the last quarter or so.

"We have been buying energy and energy related companies and indirect energy plays," Mr. Kosmicke said. "The companies we have been buying include some of the larger oil companies."

Mr. Kosmicke said the fund was down about two percentage points more than the S&P 500 during the October dip.

The second most consistent fund in the past 10 years has been that of Confederation Life, which has had a compound annual return of 8.6% for the period and is highly ranked in all other periods.

The secret of success, according to Bob Tattersall, assistant vp at Confederation Life, is that the company follows a value approach "of the kind you read about in Ben Graham's books, but don't see too much any more."

Mr. Tattersall said Confederation Life's commingled fund had a portfolio of about 30 stocks, which represented a cross-section of the U.S. economy, without names such as IBM and Kodak, or other former glamor stocks.

"We haven't used the glamor growth stocks," he said, "though we have started to look at them lately."

Mr. Tattersall said that the fund had benefitted from the success of "junior" companies in the past few years, but only one stock was not on the New York Stock Exchange or the American Stock Exchange.

Perhaps nothing shows the investment climate of the past 10 years as well as the performance of Morgan Guaranty's intermediate capitalization fund.

This fund, which has assets of about $1.1 billion, invests only in companies with capitalizations of less than $250 million, and it has been in the top 25% over all the periods examined.

According to Wes Guylay, vp at Morgan and portfolio manager for the fund, the emphasis in the fund has been on companies that might benefit from higher energy prices, and those which could help improve the country's productivity.

He noted that a significant number of the companies in the fund had been bought away at premiums because of mergers or acquisitions.

"We have had stocks worth $79 million taken away from us that way in the first nine months of this year compared with $37 million for the full year last year," Mr. Guylay said.

Among the companies still in the portfolio are such oil industry stocks as Helmerich & Payne, Noble Affiliates, and Cameron Iron Works, and such technology stocks as Raychem, a manufacturer of irradiated polymers, and Advanced Micro-Devices, a manufacturer of semi-conductors.

Mr. Guylay noted that the intermediate capitalization stocks were down more than the market in the October slump—his portfolio was down about eight percentage points compared with six to six and-a-half for the market—but they were not down as much as in the October slump last year.

Another consistent equity manager in the survey was National City Bank of Cleveland, which is in the process of changing its name to Ameritrust.

National City, according to Alan Homans, also was buying the smaller technology companies for several years—including Tektronix and Intel, and, more recently, the oil and oil service companies.

"We have been heavier than most in the oil and oil service companies." Mr. Homans says.

National City's commingled fund was up 5.4% for the 10 years, 18.7% for five years, 9.9% for three years, 15.2% for the past 12 months, and 8.9% for the latest three months.

Another consistent performer was Olympic Bank in Everett, Wash. with a return of 6.7% for 10 years and is in the top 25% in all other periods.

According to Norman Smith, vp and trust officer there, the bank uses a fundamental investment approach wedded to Graham and Dodd.

"We are quick to overweight sectors that seem to us to have the best outlook for the next couple of years, "he said. "We work with some very good research firms, and we have a policy of gradually strengthening our positions in fa-

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Top quartile equity managers

Commingled Equity Funds 3 Month Returns

	%
Citizens Chillicothe, MO	14.1
First Wi Natl, Madison	12.5
First of Denver, CO	12.4
Texas Commerce	12.0
Peoples Natl of WA	12.0
Morgan-NY (Intermed. Cap.)	11.9
Fort Worth Natl, TX	11.6
Olympic Bank, WA	11.4
First Trust Corp, CO	11.4
Confederation Life, Ont.	11.4
Bankers Life, IA.	11.2
First Union Bank, NC	10.9
Liberty Natl, OK.	10.8
First of Racine, WI.	10.8
First in Dallas, TX	10.7
Bucks County Bank, PA	10.5
Seattle 1st Natl, WA	10.4
First of Allentown, PA	10.0
Guardian Insurance, NY	9.9
Rainier National, WA.	9.7
First of Fort Worth, TX	9.7
Central Bank Denver, CO	9.5
Equitable Life, NY	9.5
Continental Bank, PA	9.4
Marine Midland, NY	9.4
Colonial AM Natl, VA.	9.4
Crocker National, CA	9.3
Chemical Bank, NY.	9.3
Connecticut General	9.2
Pacific Mutual, CA.	9.1
Mercantile at Dallas, TX	9.1
Central Natl Chicago, IL	9.0
Natl Bank of Commerce, NE	9.0
Citibank, NY	9.0
United of Denver, CO	9.0
Natl City Cleveland, OH	8.9
First City Natl Houston, TX	8.8
First Natl Lincoln, NE	8.7
Bankers Trust, NY.	8.6
Detroit Bank & Trust, MI	8.6
Northwestern Natl, MN	8.6
First of Oregon	8.5
New England Mutual, MA	8.5
Continental Illinois	8.4
Capital Natl, TX.	8.4
Mercantile Trust, MO	8.3
American Natl Denver, CO	8.3
American Bank, TN.	8.3
Pacific Natl, WA	8.2
Provident National, PA	8.2
LaSalle National, IL.	8.1
United California	8.1
Standard & Poor's 500	**7.7**

Commingled Equity Funds 1 Year Return

	%
First of Denver, CO	24.0
US Natl of Oregon	21.8
Capital Natl, TX.	21.0
First of Fort Worth, TX	20.6
Peoples Natl of WA	19.9
First Union Bank, NC	18.8
Connecticut General	18.7
Bucks County Bank, PA	18.3
Confederation Life, Ont.	18.3
Fort Worth Natl, TX	18.0
Texas Commerce	18.0
Mercantile at Dallas, TX	17.5
Bank of Oklahoma	17.1
Continental Bank, PA	17.0
United California	16.3
Bankers Life, IA.	16.3
First Trust Corp, CO	16.3
Morgan-NY (Intermed Cap.)	16.0
New Jersey National	15.9
Natl Bank of Commerce, NE	15.9
Equitable Life, NY	15.9
North Carolina Natl Bank	15.7
First of Minneapolis, MN	15.6
Manufacturers Hanover, NY	15.3
Moline National, IL	15.3
Citibank, NY	15.3
Natl City Cleveland, OH	15.2
Bank of America, CA.	15.2
Chase Manhattan, NY.	15.2
Bankers Trust, NY.	15.1
US Natl of Galveston, TX	15.1
United of Denver, CO	14.8
American Natl Denver, CO	14.8
Virginia Natl	14.8
Guardian Insurance, NY	14.7
Olympic Bank, WA	14.7
American Bank, TN.	14.7
Landmark Union Trust, FL	14.6
Central Trust, OH	14.6
Security-Peoples Trust, PA.	14.5
First Merch. Richmond, VA	14.4
First City Natl Houston, TX	14.4
Allied Bank, TX	14.3
Northwestern Natl, MN	14.3
Wheeling Dollar Bank, WV	14.2
Colonial AM Natl, VA.	14.2
First of Oregon	14.2
First of PA, Erie	14.1
American Security, DC	14.1
Security Pacific, CA	14.0
First of Maryland	13.9
First of Allentown, PA	13.9
Standard & Poor's 500	**12.6**

Commingled Equity Funds 3 Year Returns

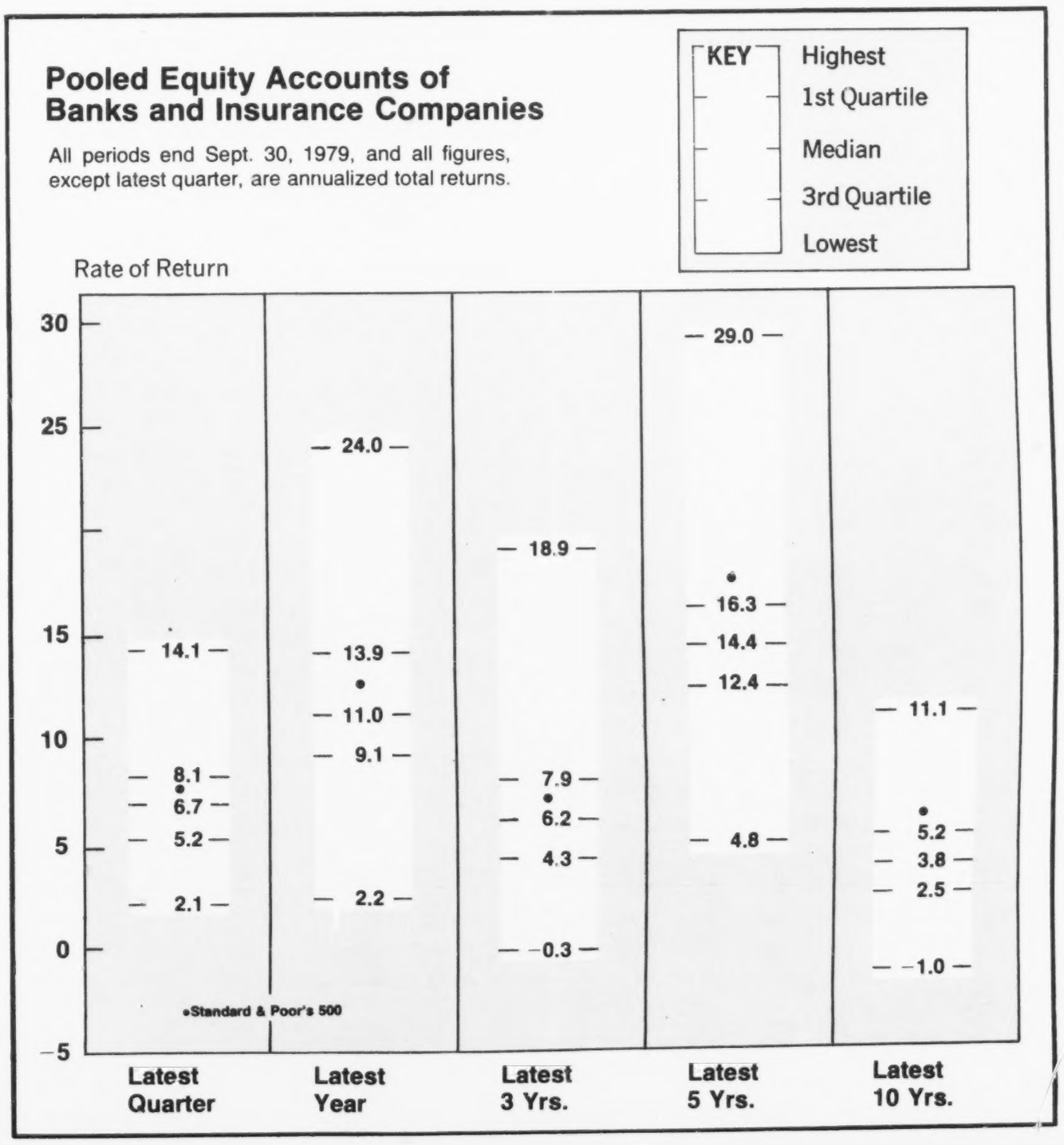
	%
First WI Natl, Madison	18.9
Citizens Chillicothe, MO	18.8
Guardian Insurance, NY	18.3
Natl Bank of Commerce, NE	15.8
US Natl of Galveston, TX	15.7
Capital Natl, TX.	15.5
First Variable Life, AR	15.1
Confederation Life, Ont.	14.7
Bankers Life, IA.	14.5
First Trust Corp, CO	14.4
Morgan-NY (Intermed. Cap.)	14.3
US Natl of Orgeon	13.8
Continental Bank, PA	13.2
First of Allentown, PA	12.8
First of Denver, CO	12.6
Bucks County Bank, PA	12.4
Fort Worth Natl, TX	12.4
Olympic Bank, WA	11.7
Liberty Natl, OK.	11.1
Fifth Third Bank, OH	11.1
First of Kenosha, WI	11.1
Landmark Union Trust, FL	11.0
First of Fort Worth, TX	11.0
Garden State Natl, NJ	10.8
Pacific Natl, WA	10.3
Citizens Southern, GA	10.2
First of Birmingham, AL.	10.1
Chemical Bank, NY.	10.1
Chicago Title & Trust, IL	10.1
Natl City Cleveland, OH	9.9
First of Maryland	9.7
North Carolina Natl Bank	9.6
Fourth Natl Tulsa, OK	9.6
Provident National PA.	9.5
Connecticut General	9.3
Mercantile at Dallas, TX	9.3
Massachusetts Mutual	9.2
Bank of Oklahoma	9.2
First of PA, Erie	9.1
Seattle 1st Natl, WA	8.7
Kellogg Citizens Natl, WI.	8.7
Moline National, IL	8.6
United Jersey Bank.	8.5
Marquette Natl, MN.	8.4
Minnesota Mutual	8.4
Bank of America, CA.	8.4
First Natl Lincoln, NE	8.3
Bankers Trust, NY.	8.2
Mercantile Trust, MO	8.2
United of Denver, CO	8.0
Equitable Trust, MD	7.9
LaSalle National, IL.	7.9
First Pennsylvania Bank	7.9
First of Minneapolis, MN	7.9
Commonwealth Natl, PA.	7.9
Standard & Poor's 500	**6.5**

Commingled Equity Funds 5 Year Returns

Continued on page 66

Pooled Equity Accounts of Banks and Insurance Companies

All periods end Sept. 30, 1979, and all figures, except latest quarter, are annualized total returns.



Fixed income . . .

Continued from page 15

First Pennsylvania had begun to lengthen the maturities of its fixed-income portfolios, but was moving gradually.

"We think we are approaching the peak," he said. "The person who attempts to wait for the ultimate peak could be in trouble."

At the same time First Pennsylvania does not expect a dramatic rally in bond prices. More likely, was an intermediate rally with interest rates then settling at a fairly high level for some time, he said.

According to Larry Hill, trust investment officer at the First National Bank of Minneapolis, there is belief there also that interest rates may be nearing a peak.

"However," he said: "whether the peak is 20 basis points higher or 70 basis points higher we don't know. What we are looking for is keys that we may be near the beginning of a decline in interest rates."

Mr. Hill said that First of Minneapolis tried to operate in sectors of the fixed-income market that people might not be paying as much attention to, and therefore might be less efficient.

Further, he said the bank did not use the typical quality structures most banks used.

For example, he said, the bank did not own any triple A industrials at present, though it does own a few telephone issues.

The majority of its holdings were double A or single A, he said, with more of the latter than the former.

At present, he said, the portfolios were between 15% and 20% in short-term instruments, and the average maturity of the invested portion was about 18 years.

Summit & Elizabeth Trust Co., another of the institutions with consistently good fixed-income results, admits attempting to anticipate where interest rates may be going.

"We try not to be out long when we think interest rates are going to rise, and we try not to be too short when we think they are going to come down," according to Anthony G. Loretto, executive vp.

"We never go really long," he said. "We stress high quality. When we go long, it's five years or 10 years at most."

At present, Mr. Loretto said, the portfolio was mainly Treasury issues, with some agencies and a few corporates.

"The yield spreads are too narrow to use much in the way of corporate bonds," he said.

Recently, Summit & Elizabeth has begun to lengthen the maturity of its investments a little, anticipating a possible peak in interest rates in the not too distant future.

Fidelity Bank's consistent fixed-income record was made possible by the bank's econometric model developed by Dr. Lacy Hunt, according to Paul Wilson, chairman of the investment committee.

"We forecast interest rates using the model," Mr. Wilson said. "We believe that to manage bonds successfully you must forecast interest rates, and we have been able to do that very successfully for the past three years using the model.

"The model's interest rate forecasts have been very accurate and it has added greatly to the success of our fixed-income investments."

Mr. Wilson said the model was a "monetarist" model, and this accounted for its success.

The Fidelity's $26 million commingled fund has a compound annual total return for the 10 years through Sept. 30 of 7.6%, and 11.2% for five years.

Mr. Wilson said that the model was now forecasting a peak in interest rates in the first quarter of 1980, and that they have not peaked yet.

"Quality is definitely a secondary consideration if you can hit the right maturity," Mr. Wilson noted, "and we concentrate on getting the right maturity."

He added that since the fund was fairly large it had begun buying longer maturities in anticipation of the first quarter interest rate peak.

"By relying on the model we have avoided a lot of the bear traps that others fell into when they anticipated peaks in the past two years." ■

Equity returns . . .

Continued from page 16

vored issues, or lightening up when they start to look overpriced.

"Another part of our success is that we use a significant number of companies in the Northwest. These have tended to outperform the market."

At present, Mr. Smith said, the bank was investing on stocks that should be recession proof, such as tobaccos and domestic oil and gas stocks, and American Express.

Fort Worth National Bank is also investing in oil stocks.

According to William I. Hamer, portfolio manager, the bank's commingled fund is about 41% in oil stocks, including ARCO, Exxon, Gearhart-Owens, Gulf, Halliburton, Occidental Petroleum.

The fund also has heavy positions in chemicals, such as Allied Chemical and Monsanto, and drug stocks.

Fort Worth National's fund was up 6.6% per year over 10 years, and was up 18% for the 12 months through Sept. 30. The fund was down about as much as the S&P 500 in the October slump.

First Trust Corp. in Denver, Co., has been specializing in smaller growth oriented companies, and, like Morgan, has had a number of them bought away, according to Pete Nelson, senior vp.

But while looking at smaller companies, First Trust Corp. does leaven the portfolio with some larger stocks.

"Looking into the 1980s you have to look first at energy and high technology companies," Pete Nelson said.

Among First Trust's holdings in those areas are ARCO, Belco Petroleum, Exxon, Mesa Petroleum, Reserve Oil and Gas, Sabine Corp., RCA Corp., Scientific Atlanta, Harris Corp., and Tektronix Inc.

But First Trust also has significant holdings in banking, insurance and machinery stocks. ■

Equity managers . . .

Continued from page 16

	%
Citizens Chillicothe, MO	29.0
Guardian Insurance, NY	26.9
Bankers Life, IA.	25.1
First Variable Life, AR	24.2
Confederation Life, Ont.	23.9
Morgan-NY (Intermed. Cap.)	23.8
US Natl of Galveston, TX	23.7
First Trust Corp, CO	23.4
First of Birmingham, AL.	22.9
US Natl of Oregon	22.9
First WI Natl, Madison	22.7
Fort Worth Natl, TX	21.4
Liberty Natl, OK.	21.2
First of Kenosha, WI	21.0
Capital Natl, TX	20.8
Landmark Union Trust, FL	20.7
First of PA, Erie	20.6
Bank of Oklahoma	19.8
Provident National, PA	19.2
Chicago Title & Trust, IL	18.9
Bucks County Bank, PA	18.9
Security TR Rochester, NY	18.8
Natl City Cleveland, OH	18.7
Pacific Natl, WA	18.6
Central Natl Clev., OH.	18.4
Olympic Bank, WA	18.4
Moline National, IL	18.2
Massachusetts Mutual	18.1
First of Denver, CO	18.0
Mercantile at Dallas, TX	17.9
First of Maryland	17.9
Fifth Third Bank, OH	17.6
Provident Bank, OH	17.4
First of Oklahoma	17.4
United California	17.3
Provident Mutual, PA	17.3
Commonwealth Natl, PA.	17.3
Colorado Natl Bank	17.2
Equitable Trust, MD	17.1
Bank of Delaware	17.1
First of Orgeon	17.0
Pacific Mutual, CA.	17.0
Cleveland Trust, OH	16.9
Central Natl Richmond, VA	16.9
Standard & Poor's 500	**16.9**
Midlantic National, NJ	16.8
North Carolina Natl Bank	16.8
CREF	16.8
Wells Fargo, CA	16.4
Minnesota Mutual	16.4
First of Chicago, IL	16.3
American Natl Chicago, IL	16.3
Marquette Natl, MN.	16.3

Commingled Equity Funds 10 Year Returns

	%
First Variable Life, AR	11.1
Bankers Life, IA.	9.1
First of Birmingham, AL.	9.0
Confederation Life, Ont	8.6
Moline National, IL	8.4
Summit & Elizabeth, NJ	8.2
First of Minneapolis, MN	8.1
Morgan-NY (Intermed. Cap.)	7.7
Continental Bank, PA	7.3
Travelers, CT	7.3
Minnesota Mutual	7.1
Mich Natl of Grand Rapids	7.1
Fifth Third Bank, OH	6.9
Provident Mutual, PA	6.7
Pacific Natl, WA	6.7
Olympic Bank, WA	6.7
Fort Worth Natl, TX	6.6
Liberty Natl, OK.	6.6
First Pennsylvania Bank	6.4
First Trust Corp, CO	6.4
Provident National, PA	6.3
Equitable Life, NY	6.2
First Natl Exchange, VA	6.2
North Carolina Natl Bank	6.0
Mercantile Trust, MO	5.9
Standard & Poor's 500	**5.9**
Crocker National, CA	5.8
United Missouri, KC	5.6
Connecticut General	5.6
Hartford National, CT	5.6
Old Natl, WA	5.5
First of Fort Worth, TX	5.5
Cleveland Trust, OH	5.4
Natl City Cleveland, OH	5.4
First of Cincinnati, OH	5.2
Fidelity American, VA	5.2
Natl Bank of Detroit, MI	5.2
Union Central, OH.	5.2

Bearish bond market fatal to some dealers

NEW YORK—The Fed's slip-up in the money supply figures may have been the straw that broke the camel's back for some municipal bond dealers.

According to Roger Klein, executive director, Public Securities Association (PSA) based in New York:

"There were some firms that announced they were going out of business in the wake of the original numbers. In the last month or so, four PSA municipal bond dealers have gone out of business.

"We had a terrible market for bonds," Mr. Klein said.

"With the wrong numbers, the bond market took another dive downward. In the case of some firms, that got them to make a decision they were probably about to make," he said.

PSA has 280 members, all of which are securities dealers that either deal in municipal bonds or Treasuries and Federal agency securities.

Last month, the association sent a letter to Paul A. Volcker, Federal Reserve Board chairman.

The letter stated PSA's concern about the revision of the money supply figures, the impact the erroneous figures had on the bond markets and PSA member firms and it requested an explanation of the errors.

A "major suggestion" in the letter was that the Fed let the markets know once the Fed realizes a revision must be made. And, that the Fed explain whether the revision will be up or down, according to Mr. Klein.

Two New York municipal bond dealers closing their operations are Park Ryan Inc. and Fred Gorsetman & Co.

Park Ryan had been a municipal bond dealer since 1953 and, according to vp John Hughes, the decision to close was "just a market situation.

"We were market makers. Thirty percent of our business was with institutionals and the rest was with the street, broker dealers and dealer banks.

We made up our mind to close before the figures came out. We made the decision to close while our capital was secure. The cost of money is prohibitive," Mr. Hughes said.

To carry a big position is almost impossible for a small firm now," he said.

Park Ryan had 10 employes and assets of $500,000.

Fred Gorsetman, president of the year-old Gorsetman & Co., explained that he's "stepping out for a while" with his institutional municipal bond operation.

Mr. Gorsetman said the company's decision was made over the last period.

"It was no longer profitable. We weren't getting a reasonable reward for the kinds of risks we were expected to take, particularly when Mr. Volcker made hefty, decisive moves on Oct. 6.

"We felt that the long-term market would be relatively sick," Mr. Gorsetman said. ■

Yield tilt questions . . .

Continued from page 3

Mr. Scholes said no. "Tilting last year was a disaster," he said.

Tom Richards, vp with Harris, agrees—sort of.

"I'm not completely convinced that you should have a total fund heavily tilted toward yield," he said. "But there is nothing that says a fund should 'tilt' toward growth."

Mr. Richards said that although his studies haven't shed any light on on whether a yield-tilted fund would produce incremental returns, they have indicated that many pension funds are heavily 'tilted' in the opposite direction.

He said a 'customized' individual yield-tilt fund tailored to an individual portfolio's needs is a possibility.

"It may be desirable to neutralize a specific fund's exposure to growth by 'tilting' a portion of the fund's portfolio toward high-yielding stocks," he said.

Mr. Boldt said he sympathizes with fund sponsors.

"The extra return is so small, and fluctuations on a short-term basis swamp the short-term rewards, it will take a long time to see if it is worth the reward."

His estimated 'time period' is 25 years. "Sponsors can't make the decision to go into yield-tilt funds on a performance basis," he said. "They must do it on theory."

The banks have yet to make a final decision.

But overall, Mr. Scholes said he thinks the extra transactions costs and risks probably outweigh the benefits.

"Let's put it this way," he said. "I wouldn't pull my money out of a pension fund that wasn't yield-tilted." ■

Fixed-income . . .

Continued from page 15

First Natl Exchange, VA	9.9
First of Oregon	9.9
Continental Illinois	9.9
Merchants Natl, NY	9.8
Central Natl Richmond, VA	9.8
Mellon Bank, PA	9.8
Manufacturers Hanover, NY	9.8
First of Atlanta, GA	9.8
United California	9.8
New Jersey National	9.7
First of Racine, WI	9.7
Detroit Bank & Trust, MI	9.6
Chicago Title & Trust, IL	9.6
Union Central, OH	9.6
First of Minneapolis, MN	9.6
Manufacturers Detroit, MI	9.6
American Security, DC	9.6
First Trust Corp, CO	9.6
Mercantile Trust, MO	9.6
First WI Natl, Madison	9.5

Commingled Fixed-Income Funds 10 Year Returns

	%
Valley Natl, AZ	9.1
Connecticut General	8.7
Marquette Natl, MN	8.7
First Pennsylvania	8.5
American Fletcher, IN	8.2
US Trust, NY	8.2
Citibank, NY	8.0
Morgan Guaranty, NY	8.0
First of Minneapolis, MN	8.0
Equitable Trust, MD	7.8
St. Louis Union, MO	7.7
Commerce Union, TN	7.7
Detroit Bank & Trust, MI	7.7
Wachovia Bank, NC	7.7
Mercantile Safe, MD	7.6
Fidelity Bank, PA	7.6
Chemical Bank, NY	7.6
Bank of America, CA	7.6
Continental Illinois	7.6
Manufacturers Hanover, NY	7.6
Union Central, OH	7.6
Summit & Elizabeth, NJ	7.5
John Hancock	7.4
Crocker National, CA	7.4
Peoples Natl of WA	7.4
Mercantile Trust, MO	7.4
Old Kent, MI	7.3
Mich Natl of Grand Rapids	7.3

A 'risk-less' investment

Salomon urges discount dividend plan

By Clare Minick

NEW YORK—"How can pension fund managers with fiduciary responsibilities pass up a risk-less investment?" asked Robert Salomon, partner of Salomon Brothers, an investment banking and marketing firm.

The risk-less investment he referred to is the discount dividend reinvestment plan (DDRP) that 80 companies now offer to their shareholders.

The DDRPs allow the shareholder to invest the dividend income at a 5% discount to the market value of the stock. (An exception to the 5% is Public Service-New Mexico which offers a 3% discount).

In Mr. Salomon's view, these plans are a "critical issue" and one that has not been faced by fiduciaries. He pointed to the fact that 85% of eligible shareholders do not participate in the plans where discounts are available.

There are a number of reasons why the plans have not been more fully used—mainly centering on the fact that no one interested party or group has been pushing them strongly enough.

For instance, he said the brokerage community may see the programs as a threat to their business. From the retail side, the DDRPs allow the individual investor to bypass the broker, thus denying him commission dollars.

The investment banker may not look fondly at the plans because they enable companies to raise capital without using his firm acting as an intermediary.

Mr. Salomon said that the DDRP's will account for nearly $2 billion of equity capital in 1979 representing 25% of the equity capital issuance of $8 billion in 1979. (Of the 80 companies with DDRPs, 46 are utilities, primarily electric, which always are seeking equity capital).

But, the point Mr. Salomon stressed is that fiduciaries seem to be ignoring these plans—in his view they seem to want the issue to fade away.

Money managers cite two main reasons, according to Mr. Salomon. The DDRPs are a "nuisance" and at banks they are an "administrative nightmare."

Others argue that they may not want to add to a present position in a stock. Mr. Salomon doesn't buy the argument.

"No one said you had to own the stock—take the discount and sell the stock."

Salomon Brothers, according to various companies offering the DDRPs, facilitates sale of stock through arbitrage activities.

Despite Mr. Salomon's opinions on the use of DDRPs and the numbers he brings to bear on the issue, many banks and other money managers told *Pensions & Investments* that indeed they do use the DDRPs.

Steve Cantor, senior vp at Chase Investors Management Corp., said that his firm does make use of the DDRPs.

"Although Chase owns no more than two or three names in the portfolios that offer the plans, we do make use of them, sometimes to build a position in a stock," said Mr. Cantor.

Charles Spear, vp, at First National Bank of Chicago, said that the bank "does participate in all DDRPs where the stock is on our common stock list. We have about 12 stocks now."

A pension fund sponsor with a $1 billion internally managed fund said: "If we have a substantial position in a stock, over $10 million, we do use the DDRPs. We feel we ought to do it."

Wendell Starke, president of Invesco Capital Management Inc., said "we are trying to take advantage of the plans—it's difficult to justify not doing so."

Mr. Starke was not certain about how many stocks offering the DDRPs Invesco owns.

Spokesmen from Bank of New York and National Bank of Detroit echoed the responses of other managers.

At BA Investment Management Corp., Clyde Claus vp said that BA has been gearing up to use the DDRPs by improving BA's accounting systems. "We're moving foreward," he said.

The accounting question is a big one (*Pensions & Investments*, April 23).

One industry source said that many of the banks now do manual accounting for the DDRPs. There also are problems from the standpoint of the companies offering the DDRP's.

Some companies do not allow for partial reinvestment of the dividends, which causes a bottleneck. Although many companies have the banks take care of the accounting, a few, American Telephone & Telegraph (AT&T) in particular, handle their own accounting for the dividend reinvestment plans.

AT&T set up an elaborate accounting system which includes a sub-accounting feature to facilitate use of the plan.

AT&T has ample reason—Salomon Brothers estimates that the company will raise some $940 million from dividend reinvestment plans in 1979.

Most companies do not have the size or resources of an AT&T. But they have been active in notifying their shareholders about the DDRPs and upgrading their own accounting mechanisms to encourage more participation.

Don Wallace, assistant treasurer at New Jersey Public Service Electric & Gas, said that the company has a new accounting system and will allow for partial reinvestment of dividends.

The companies with DDRPs said they are generally pleased with the participation in the plans. The increase in the number of companies offering the plans bears this out.

According to Mr. Salomon, the number has doubled over the past year. And while DDRPs began with AT&T in 1975 and were considered the domain of utilities, there are now 21 industrial companies and 13 financial companies, primarily regional bank holding companies, with DDRPs.

Another change has taken place, according to Mr. Salomon. There has been increasing—but not enough—participation by institutional investors which is in concert with the increasing institutionalization of the markets.

The birth of the discount feature in the mid-1970s brought the institutions in, according to a number of companies with the plans.

David Meek, secretary and treasurer of Illinois Power said, that, the company began the discount in

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Dividends . . .

Continued from page 4

August, 1978. It resulted in increased interest by insurance companies and bank trust departments, he said.

James M. Paul, assistant secretary of Commonwealth Edison, offered numbers to show how the discount has affected participation in his company's plan.

In August 1976, Commonwealth began the 5% discount plan. Shortly before that, in May, the company had 15,000 participants representing 8% of stockholders, and 3.8% of outstanding shares.

By August 1979, the company had 36,000 participants representing 14.8% of stockholders, and 16.3% of outstanding shares. (The 16.3% figure is even more impressive when considering that the company has more shares outstanding in 1979 than 1976.)

Mr. Paul said that it was the 5% discount that caused institutional investors to use the plan.

James Pennington, vp of financial operations at Public Service of Indiana, estimated that 20% of outstanding shares participated in the company's DDRP which was started in March, 1977.

The company does its own administration and accounting. Mr. Pennington said, also, that he noticed "significant participation by institutions." ■

Companies offering discount dividend reinvestment plans (DRP)

	Utilities	Price (11/2/79)	Dividend	Current Yield	1979 est. cash DRP (millions)
1.	American Elec. Pwr.	$18	$2.22	12.0%	$ 45.0
2.	American Telephone	54	5.00	9.3	940.0
3.	Baltimore G&E	22	2.44	11.0	7.0
4.	Bell Canada	17	1.52	9.0	41.8
5.	Black Hlls P&L	24	1.80	7.5	0.3
6.	Boston Edison	20	2.44	12.0	n/a
7.	Central Ill. Light	15	1.70	11.0	2.7
8.	Central Ill. PS	12	1.36	11.0	6.1
9.	Commonwealth Edison	21	2.60	12.0	46.0
10.	Continental Tel	15	1.36	9.1	21.2
11.	Detroit Edison	13	1.60	12.0	21.5
12.	Empire District Elec.	12	1.44	2.0	0.6
13.	General Public Util. (suspended)				
14.	Illinois Power	19	2.28	12.0	8.8
15.	Iowa Elec. L&P	13	1.50	11.0	1.7
16.	Iowa P&L	22	2.52	12.0	5.3
17.	Iowa-Ill. G&E	18	2.00	11.0	3.8
18.	Iowa Southern Util.	24	2.28	9.5	0.8
19.	Kansas G&E	16	1.90	12.0	2.4
20.	Kansas-Neb. Nat. Gas	18	1.48	8.2	2.1
21.	Kansas P&L	17	1.96	12.0	2.5
22.	Kansas City P&L	23	2.66	12.0	2.4
23.	Madison G&E	14	1.48	10.6	1.3
24.	Minn. P&L	19	1.94	10.0	2.4
25.	Montana P&L	19	2.04	11.0	1.4
26.	New England Elec.	21	2.24	11.0	7.1
27.	New York State E&G	15	1.76	12.0	7.0
28.	No. Ind. PS	13	1.50	11.0	4.0
29.	No. States Power	22	2.28	10.0	11.0
30.	Northwest Nat. Gas.	14	1.04	7.4	1.2
31.	Ohio Edison	15	1.76	12.0	23.5
32.	Oklahoma G&E	14	1.60	11.0	8.3
33.	Orange & Rockland	13	1.56	12.0	3.9
34.	Pa. Power & Light	18	2.04	12.0	29.0
35.	Peoples Gas	36	2.88	7.9	7.7
36.	Potomac Elec.	12	1.40	12.0	10.0
37.	Public Service E&G	19	2.20	12.0	40.9
38.	Public Service In.	23	2.32	10.0	21.5
39.	Public Ser. New Mex.*	18	1.92	11.0	n/a
40.	Puget Sound P&L	14	1.64	12.0	9.0
41.	So. Carolina E&G	15	1.68	11.0	6.7
42.	So. Cal. Edison	24	2.72	11.0	23.0
43.	Southern Co.	12	1.54	13.0	62.0
44.	Suburban Propane Gas.	33	1.44	4.3	0.3
45.	Texas Utilities	18	1.64	9.2	15.0
46.	Wisconsin Elec. Power	23	2.38	10.0	7.4

*3% discount

	Industrials				
1.	Allied Chemical	43	2.00	4.6	12.4
2.	AMAX	40	1.80	4.5	5.0
3.	Carter-Hawley Hale	18	1.10	6.2	5.7
4.	Earth Resources	27	1.00	3.7	0.3
5.	Harnischfeger Corp.	20	1.00	5.0	0.5
6.	INCO.	19	.40	2.1	8.0
7.	Integon	25	.44	1.8	1.0
8.	International Paper	37	2.20	5.9	20.0
9.	Interpace.	18	1.40	7.8	0.6
10.	Kemper Corp.	35	1.60	4.6	8.5
11.	Macy, R.H.	43	1.85	4.3	5.0
12.	Nicor	29	2.52	8.7	11.5
13.	Panhandle East. Pipe.	52	3.10	6.0	6.1
14.	Pioneer Corp.	27	1.16	4.2	2.8
15.	Pullman.	37	1.80	4.9	1.7
16.	Safeway Stores.	37	2.60	7.1	15.0
17.	Sperry Rand	43	1.56	3.6	5.6
18.	Standard Brands	22	1.48	6.6	5.2
19.	Texas Gulf.	27	1.20	4.4	10.2
20.	Union Carbide	40	3.00	7.6	27.0
21.	Universal Foods	14	.96	6.9	0.5

	Financials				
1.	Alabama Bancorp.	22	1.32	6.0	1.0
2.	American Security Corp.	30	2.20	7.3	0.8
3.	Bank of Va.	13	1.16	9.0	1.0
4.	Bankers Trust	39	3.30	8.6	5.0
5.	Crocker National	28	2.00	7.3	4.0
6.	Dominion Bankshares	14	1.00	7.1	0.2
7.	Equimark	10	.96	10.0	1.0
8.	First Sec. Corp.	20	.86	4.3	1.1
9.	Hartford National	16	1.40	8.8	0.8
10.	Mercantile Texas Corp.	23	1.20	5.2	0.6
11.	NCNB	12	.64	5.4	0.5
12.	Seafirst Corp.	27	1.12	4.7	n/a
13.	Virginia National Bank	13	1.04	8.0	1.0

Source: Salomon Brothers, The Wall Street Journal, November 5, 1979

Good and bad news study on executive salary levels

CHICAGO—First the good news.

According to a recent study completed by Hewitt Associates, pay increases for executives in 1980 are expected to be higher than those given in 1979—

Then, the bad news.

Pay increases for executives in 1979 were lower than those given in 1978, according to the study of 414 major national corporations.

Hewitt Associates, a major pension consulting firm, completed the wage survey to determine what effect, if any, voluntary wage guidelines might have had on executive compensation.

According to the report, most companies reported that they were in compliance with voluntary wage guidelines, and a significant number of those polled attributed higher employe turnover, recruitment troubles and employe dissatisfaction to the guideline program.

Actual pay increases for salaried employes, including executives, ranged from 8.3% to 8.5% in 1978 compared with 7.8% to 8% in 1979. Budgeted base pay increases for 1980 range from 8.7% to 8.9%, according to the report.

The impact of wage guidelines led to reductions in base salary increases in 48% of the companies surveyed.

Among the companies reporting reduced pay increases, decreases ranged from one-half to 1% to 1.5% in 59% of the responding companies and from 1.6% to 2% in 41% of the surveyed companies, according to the Hewitt report.

A further breakdown showed that lower pay increases due to the guidelines occurred in 38% of the companies with sales under $50 million, in 33% of the companies with sales of $50 to $150 million, 63% with $150 to $500 million 57% with sales of $500 million to $1 billion and 66% of those with sales over $1 billion.

By region, 52% of the surveyed companies in the South said they felt the wage guidelines increased executive turnover personnel problems.

According to the survey, those same negative feelings were echoed by 47% of survey companies in the West and 44% of respondents in both the East and Midwest.

By company size, turnover, recruiting and dissatisfaction difficulties were noted by 54% of firms with sales of $50 to $150 million, by 48% with sales of $150 to $500 million, by 44% of those with sales of $500 million to $1 billion and by 44% of those with sales above $1 billion and by 36% with sales under $50 million.

Hewitt Associates, a firm of independent consultants and actuaries, serves clients on compensation, employe benefits, communication and related personnel matters. ■

Company Reactions to Wage Restraint Guidelines (—analysis by company size—)

Survey Questions*	Under $50 Million	$50-$150 Million	$150-$500 Million	$500-$1 Billion	Over $1 Billion	Other
1. Company posture relative to wage restraint program?						
• Conservative	13% (7)	25% (19)	30% (31)	46% (29)	42% (31)	29% (14)
• Moderate	43% (24)	39% (29)	52% (55)	37% (23)	47% (34)	54% (26)
• Aggressive	30% (17)	25% (19)	15% (16)	17% (11)	11% (8)	15% (7)
• Ignoring standards	14% (8)	11% (8)	3% (3)	-0-	-0-	2% (1)
	100%	100%	100%	100%	100%	100%
2. Company posture change in recent months?						
• Yes	24% (13)	15% (11)	23% (23)	26% (14)	13% (9)	16% (7)
• No	76% (41)	85% (61)	77% (78)	74% (40)	87% (61)	84% (38)
	100%	100%	100%	100%	100%	100%
3. Any change contemplated in Program Year 2?						
• Yes	22% (12)	16% (12)	21% (20)	8% (4)	13% (9)	13% (6)
• No	78% (42)	84% (61)	79% (77)	92% (48)	87% (60)	87% (40)
	100%	100%	100%	100%	100%	100%
4. Base salary increases reduced in response to the wage standards?						
• Yes	38% (21)	33% (24)	63% (57)	57% (31)	66% (49)	25% (12)
• No	62% (35)	67% (48)	37% (34)	43% (23)	34% (25)	75% (36)
	100%	100%	100%	100%	100%	100%
5. Any increase in turnover, employe dissatisfaction, or recruiting difficulty?						
• Yes	36% (20)	54% (38)	48% (50)	44% (23)	44% (32)	43% (20)
• No	64% (35)	46% (33)	52% (54)	56% (29)	56% (40)	51% (26)
	100%	100%	100%	100%	100%	100%

*Each percentage represents the percent of respondents within that company size range who chose that answer to the question.
Source: Hewitt Associates

Social investing could hurt fund performance: CDA study

SILVER SPRINGS,MD.—The avoidance of the "socially undesirable" stocks identified by the Corporate Data Exchange (CDE) would have cut into a pension fund's investment returns over the past five years, according to a study by Computer Directions Advisors Inc.

According to the study, of the 99 top institutional holdings as of Sept. 30, 1979, 39 appeared on the CDE list of socially undesirable investments. These include companies found guilty of Occupational Safety and Health Act (OSHA) violations, Equal Opportunity violations, non-union companies and companies doing business with South Africa.

According to Robert A. Levy, president of Computer Directions Advisors Inc., the 39 "undesirable" stocks had an average appreciation of 83.5% over the five years, excluding dividends.

The 60 acceptable stocks, on the other hand, produced an average appreciation of only 76.8%, excluding dividends.

Mr. Levy also compared the returns from all 99 companies on the CDE undesirable list with that of the Standard & Poor's 500 index.

He found that the 39 socially undesirable stocks had an average price appreciation of 109.2%, while the S&P 500 was up only 72.0% in the same period.

Mr. Levy also noted that if the 39 socially undesirable stocks among the 99 largest institutional holdings had been sold in compliance with the social guidelines, 51.3% of the dollars invested in the top 99 holdings would have been dumped onto the market.

Five-year percentage price changes

60 Socially acceptable stocks

	% price change
Aetna	215.1
Air Products	75.6
Alcan Aluminum	73.1
Allied Chemical	56.9
ALCOA	54.9
American Express	78.3
AMP Inc.	58.4
ARCO	94.3
Avon	157.8
Bristol Myers	123.1
Burroughs Corp.	9.5
CBS Inc.	91.9
Conoco	165.2
Crown Zellerbach	92.6
Fannie Mae	51.1
GT&E	55.9
Georgia Pacific	103.0
Getty Oil	126.6
Gulf Oil	103.0
Hercules	(24.6)
Hewlett Packard	102.2
International Paper	25.5
ITT	80.0
Johnson & Johnson	(1.8)
Kennecott Copper	9.4
Kerr McGee	20.5
Eli Lilly	4.0
Lubrizol	39.9
Marathon Oil	207.3
Martin Marietta	182.7
Merck & Co.	36.8
Minnesota Mining	5.6
Monsanto	32.4
Motorola	43.8
Northwest Airlines	128.7
Pfizer	50.0
Phelps Dodge	16.9
St. Regis Paper	62.8
Schering Plough	(23.8)
Southern Pacific	38.0
Sourthern Railway	56.9
Sperry Corp.	98.5
Squibb	49.2
Standard Oil (in.)	93.9
Stauffer Chemical	141.8
Superior Oil	242.6
Syntex	27.8
Tenneco	119.6
Time Inc.	200.8
Travelers Corp.	149.2
Union Camp.	65.6
Union Carbide	22.7
Union Oil	218.0
Union Pacific	154.2
Upjohn	4.2
Warner Lambert	16.6
Weyerhaeuser	34.2
Williams Cos.	(14.4)
Xerox	(0.4)
	Average 76.8

39 Socially unacceptable stocks

Amax	87.1
Amer. Home Prods.	2.8
AT&T	34.1
Baxter Travenol	89.2
Bethlelem Steel	(2.0)
Caterpillar Tractor	102.7
Citicorp	4.9
Cities Service	110.4
Coca Cola	42.9
Deere	168.4
Delta Air Lines	31.2
Digital Equipment	184.1
Dow Chemical	29.2
du Pont	17.4
Eastman Kodak	(20.3)
Exxon Corp.	110.9
Firestone Tire	(27.0)
Ford Motor	48.3
General Electric	62.4
General Motors	75.4
Halliburton	130.0
IBM	70.4
K Mart	37.3
McDonald's	100.0
Mobil	216.5
Philip Morris	95.8
Phillips Petroleum	155.1
Proctor & Gamble	5.8
Raytheon	446.6
R.J. Reynolds	54.2
Safeway Stores	31.0
Schlumberger	269.6
Sears, Roebuck	(23.5)
Standard Oil (Ca.)	161.4
Standard Oil (Oh.)	202.2
Texaco	41.2
Texas Instruments	63.2
UAL Inc.	58.4
U.S. Steel	(9.4)
	Average 83.5

Harris results are reaffirmed

Private pension system appears strong

By Kenneth K. Keene and Sandra M. Kazinetz

EVERY NOW and then, the business news of the day is that Company ABC or XYZ is in financial difficulty, and whatever will happen to its large pension liabilities? Which prompts a plethora of scare editorials and "analyses" of the basic unsoundness of private pension plans.

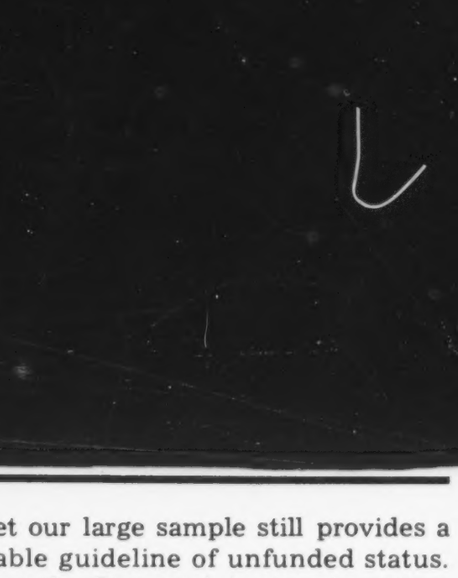
Despite the validity of the economic distress which may indeed be affecting Company ABC or XYZ, there is no justification for a broad condemnation of the financial status of private plans.

The Johnson & Higgins "1979 Executive Report on Funding Costs and Liabilities or Large Corporate Pension Plans," a survey of 648 Fortune-ranked companies, decisively concludes that their private pension plans are, on average, financially strong and fully capable of paying the benefits that they promise.

The Executive Report, in fact, reaffirms the findings of the 1979 Study of American Attitudes Toward Pensions and Retirement, the J&H-sponsored Louis Harris surveys. In that study, 93% of private plan participants and 100% of business leaders say they have confidence that their own pension plan will pay the promised benefits; 98% of business leaders believe their company's plan is adequately funded; almost three-quarters of these business leaders feel that unfunded liabilities are not a major problem affecting private pension plans. And 93% of employes say they have confidence that they'll receive promised benefits in marked contrast to their views about Social Security promises.

Despite the validity of economic disasters, which may indeed be affecting company ABC or XYZ, there is no justification for a broad condemnation of private pension systems.

Kenneth K. Keene **Sandra M. Kazinetz**



Mr. Keene is senior vp and director, Johnson & Higgins, New York. Ms. Kazinetz is a senior research consultant with the firm.

The 1979 Executive Report, like those done in previous years and reported upon earlier in these pages, examines the pension plan information presented in the 1978 annual reports to stockholders of 475 of the Fortune 500 Industrial companies and 173 of the Fortune 50 Largest Non-Industrial Commercial Banking, Transportation, Retailing and Utilities companies. These pension plan figures were then compared to various other financial data in the annual reports. Thirteen different factors were analyzed in the full Executive Report. Two of the more telling ones are excerpted here.

The first compares unfunded vested liabilities as a percent of net worth. This ratio has become, rightly or wrongly, the economic thermometer of a pension plan's health, due to the 30%-of-net-worth employer liability imposed by ERISA should a plan terminate. The 599 companies which reported are represented here, by Fortune 500 Industrial group, by industry group and by Fortune 50 Largest Non-Industrial group.

It is acknowledged from the outset that different actuarial assumptions and methods can produce varying liability figures, yet our large sample still provides a reasonable guideline of unfunded status. Note that the Financial Accounting Standards Board has proposed an amendment to Accounting Principles Board Opinion Number 8, "Accounting by Employers for Pensions," which would require some approximate degree of uniform disclosure of accumulated plan benefits, vested benefits and net assets. If adopted, the amendment would be effective for fiscal years starting after December 15, 1979.

The accompanying exhibit provides some very good—and reassuring—news. By 500 Industrial group, by industry group and by Non-Industrial group, the average ratio of unfunded vested liabilities, is, in all cases, less than the magic 30% figure for both 1978 and 1977. In fact, unfunded vested liabilities for 442 Fortune Industrial companies were, on average, only 7.9% of net worth in 1978. Total unfunded vested liabilities for 157 Non-Industrial companies in 1978 were 1.7%

Continued on following page

Private pensions strong . . .

Continued from previous page
of net worth. And all 599 companies, the ratio was a comfortable 5.9%.

Even more heartening, however, is that 32% (189 companies) of the companies had no unfunded vested liabilities at all. Only 4% (27 companies) had a ratio exceeding the key 30% level in 1978.

By industry group, the one with the highest ratio in 1978 was, not unexpectedly, metal manufacturing—with unfunded vested liabilities averaging 24% of net worth. Of the 35 companies in this industry, nine—or 26%—were above the 30% figure. None was fully funded for their vested liabilities.

Second highest unfunded was another labor-intensive, heavily unionized group—motor vehicles, with an average ratio of unfunded vested liabilities to net worth of 20.5%. (Chrysler Corporation has been much in the news because of its financial problems including unfunded liabilities).

Aerospace companies were not far behind, with an unfunded vested at 19.6% of net worth. The furniture group was lowest, with no unfunded vested liabilities for the two companies in that industry. Soap and cosmetic manufacturers had a ratio of 1.0%, followed by broadcasting, motion picture production and distribution (0.3%), and mining and crude oil production (0.5%). Of the 12 industry groups whose companies reported unfunded vested liabilities for both 1978 and 1977, one-half had an increase in their ratio to net worth, and one-half reported a decrease. Among Non-Industrials, commercial banks had the lowest percent—0.6%, and transportation companies the highest, 5.4%.

While these figures provide a high comfort level, we believe that an equally good—if not better—economic thermometer of a pension plan's health is to look at the progress of funding and not the extent of the unfunded. The 1979 Executive Report, for the first time, does just that.

The last two columns of the accompanying Exhibit show the relationship between a plan's assets and its total vested liabilities. The figures for asset values of corporate pension plans (most of which were reported at market value as of the end of the fiscal year) were obtained directly from one-half of the plan sponsors.

The remainder were taken from the 1979 Money Market Directory. Total vested liabilities were calculated by adding the total unfunded vested liabilities of plans for which a plan asset value was available to the total plan asset figure. The ratio of plan assets to total vested liabilities was then calculated.

The Exhibit shows that pension plans are basically in excellent shape: Vested liabilities of 434 Fortune 500 industrial firms were 77% funded at the end of 1978. The 140 non-industrials were doing better, reaching a 93% funding level. Combined, these 574 companies in this part of the survey had 81% of their vested liabilities *funded* at the end of last year.

Unfunded Vested Liabilities

As a Percent of Net Worth	Number of Companies 1978	1977	Percent 1978	1977
0	189	176	32%	31%
.1- 9.9%	283	266	47	47
10-19.9%	78	76	13	14
20-29.9%	22	19	4	3
30% or greater	27	26	4	5
Total	**599**	**563**	**100%**	**100%**

Average: 5.9%

Total Vested Liabilities

Percentage of Plan Assets	Number of Companies 1978	Percent 1978
1.24.9%	2	.3%
25-49.9%	32	5.6%
50-74.9%	153	26.7%
75-99.9%	210	36.6%
100%	177	30.8%
Total	**574**	**100.0%**

Average: 81%

Twenty-five per cent of the industrial group's plans and 47% of non-industrial plans were fully funded. Only two industrial companies were less than 25% funded. These companies had assets of $1.2 million and total vested liabilities of $10.2 million. Of the 165 Industrial companies which fell into the 75% to 99% funding range, 48 or (29%) were 90% or more funded. Twenty-five (or 56%) of 45 Non-Industrial companies in the same range similarly were at least 90% funded.

By industry group, nine of the 27 had vested liabilities which were at least 90% funded, starting with the furniture group which was 100% funded. The soaps, cosmetics group was essentially fully funded at the 99% funding level.

Even the metal manufacturing and motor vehicle industries turned out to be in better shape than has been presumed. Metal manufacturers had the lowest funding level, at 63%, with motor vehicles, along with apparel firms, sixth from the bottom at 69%.

Of the Non-Industrials, the utilities were high with a 95% funding level and retail and transportation companies were lowest, each at an 85% level.

Total plan assets for the 574 companies in the Exhibit were $150 billion, or 18% of the market value of all shares listed on the New York Stock Exchange at the end of 1978.

Fifty-three per cent, or $79 billion, was held by the plans of 95 companies in the Fortune 1-100 Industrial group. Vested liabilities of these plans were, on average, 78% funded.

Thus, while there are important exceptions which tend to get media attention, private pension plans are basically sound. With average unfunded vested liabilities of our sample of companies equal to only 5.9% of net worth, and with vested liabilities being 81% *funded*, the results continue to be encouraging. Pension plans for large companies are able to deliver! And, in the final analysis, *that's* what's important. ■

	UNFUNDED VESTED LIABILITIES (UVL) AS A PERCENT OF NET WORTH				PLAN ASSETS AS A PER CENT OF TOTAL VESTED LIABILITIES (TVL)	
	Number of Companies		UVL as a Percent of Net Worth (Average)		Number of Companies	PA as a Percent of TVL (Average)
	1978	1977	1978	1977		
BY FORTUNE 500 INDUSTRIAL GROUP						
Fortune 1-100	95	93	8.2%	8.3%	95	78%
Fortune 101-200	92	89	8.2%	7.5%	91	71%
Fortune 201-300	83	78	6.9%	6.8%	82	74%
Fortune 301-400	90	87	6.0%	5.8%	88	76%
Fortune 401-500	82	76	4.7%	4.9%	78	78%
Total	**442**	**423**	**7.9%**	**7.8%**	**434**	**77%**
BY INDUSTRY GROUPS						
Mining,crude oil production	8	7	.5%	.7%	8	94%
Food	53	52	4.3%	4.1%	49	83%
Tobacco	3	3	5.2%	4.5%	3	68%
Textiles, vinyl flooring	12	11	2.9%	2.4%	12	87%
Apparel	7	7	5.4%	4.2%	7	69%
Furniture	2	1	0%	0%	2	100%
Paper, fiber and wood products	30	29	5.6%	5.3%	29	74%
Publishing, printing	9	8	1.2%	1.2%	9	94%
Chemicals	33	33	4.7%	5.3%	33	86%
Petroleum refining	33	30	1.2%	1.5%	32	91%
Rubber, plastic products	7	7	17.4%	18.7%	7	65%
Leather	1	1	7.7%	10.3%	1	79%
Glass, concrete, abrasives, gypsum	16	14	11.9%	9.9%	16	71%
Metal manufacturing	35	34	24.0%	23.6%	35	63%
Metal products	20	19	8.5%	8.6%	19	73%
Electronics, appliances	33	33	8.5%	8.0%	33	85%
Shipbuilding, railrd., trans. equip.	5	5	13.5%	14.5%	5	64%
Measuring, scient., photo equip.	15	15	.6%	.5%	15	96%
Motor vehicles	20	19	20.5%	21.6%	20	69%
Aerospace	13	12	19.6%	11.6%	13	82%
Pharmaceuticals	15	14	1.5%	.8%	15	90%
Soaps, cosmetics	4	4	.1%	.9%	4	99%
Office equipment (incl. computers)	8	8	4.7%	3.4%	8	82%
Industrial & Farm equipment	46	45	12.5%	13.4%	45	68%
Musical instr., toys, sporting goods	3	3	1.2%	1.1%	3	96%
Broadcasting, motion picture prod., distr.	4	2	3%	1.6%	4	97%
Beverages	7	7	2.6%	2.7%	7	82%
BY FORTUNE 50 LARGEST NON-INDUSTRIAL GROUP						
Commercial banking	42	38	.6%	.7%	31	93%
Retailing	32	31	2.1%	1.8%	29	85%
Transportation	38	34	5.4%	5.3%	36	85%
Utilities	45	37	1.3%	1.7%	44	95%
Total	**157**	**140**	**1.7%**	**2.0%**	**140**	**93%**

Fiduciary claims growing

50% more claims in 1979

CHICAGO—Although the number of claims filed against directors and officers continues to overshadow fiduciary liability charges, pension-linked claims are beginning to grow at a faster rate, according to a Wyatt Co. study.

More than 50% more fiduciary liability claims—48—were reported this year to the consultant than last year in its annual surveys of trends in directors and officers (D&O) liability insurance.

The number of D&O liability claims reported increased by only 11.8% in the same period, although Wyatt estimates D&O liability claims are increasing 21.6% annually.

Measuring susceptibility to each type of claim, Wyatt says susceptibility of all companies to fiduciary liability claims is now 2.6%, up 73% from 1.5% last year. In comparison, susceptibility to D&O liability claims is 14.1%, but only 17.5% higher than the overall susceptibility of 12% in the 1978 survey.

As would be expected, the larger the company the more susceptible it is to fiduciary liability claims. While manufacturing companies reported the largest number of claims, the percentage of claims for manufacturers is not significantly different from that of other types of companies, Wyatt notes.

Of the 48 claims charging corporations violated their fiduciary duty for benefit plans as established by the pension reform law, 31 are covered by insurance. There is no insurer for five claims, three fall outside the policy coverage and four may or may not be covered. There was no insurance information about two of the claims.

Thirty-seven claims were filed by employes or former employes. Only three were filed by the families of employes or former employes, one was filed by the government and four claimants were not identified.

Administrative error and breach of duty under ERISA were each cited in 15 claims, the most frequently made charges. Failure to honor an employment contract was charged four times and misleading representation and improvement investments were each charged three times.

Almost a third of the claims—15—were closed with settlement, but 18 are awaiting trial. Only three were closed by litigation and seven were dropped by the claimant.

Defense costs in the eight settled claims totaled $100,805, or an average of $12,601 per claim. The two litigated claims cost an average of $19,000 to defend and the five dropped claims cost an average of $4,759 to defend.

Of the eight open claims, an average of $15,437 has been spent to date defending each of them.

Within the sketchy returns on damages paid, 12 claims were closed without payment and 10 were closed for less than $20,000 in damages. Only two claims won damages of $20,000 to $50,000.

Of the various methods for insuring against fiduciary liability claims, purchase of a separate fiduciary liability policy was chosen by

Continued on page 53

. . . but costs per claim are down from 1978

CHICAGO—One out of every nine Fortune-listed company will be hit with a claim against its directors or officers (D&O) by year-end, up from one in 11 in 1978, according to the Wyatt Co.

The average D&O claim now costs $903,229 in defense and losses, but in that average are 60% of the claims closed without payment. Payments made to claimants average $1.2 million.

These are among the conclusions of Wyatt's 1979 directors and officers and fiduciary liability survey of 1,669 U.S. corporations. With its five previous surveys, Wyatt has become the most respected source of information on directors and officers liability insurance.

The surveyed companies have assets from less than $10 million to more than $2 billion and represent all segments of U.S. business.

The average cost of a D&O claim is down from the average in the 1978 survey, but Wyatt suggests the decrease may be attributable to the reporting or nonreporting of large costs. The average of 60% of claims closed without payment is consistent with the 1978 survey.

But more D&O claims are being filed each year; the increase in 1979 compared with 1978 is 21.6%. Since 1971, the number of D&O claims filed has increased steadily from nine to 83 in 1978.

Of the 369 claims reported by 236 of the surveyed firms, 215 or 58% were covered by D&O insurance. Respondents were uncertain if coverage existed for 81 or 22% of the claims. No insurance covered 64 or 17.3% of the claims, with 24 claims involving incidents outside the policy coverage and 40 occurring when no insurance had been purchased.

The 7.5% of the 320 claims falling outside the scope of purchased insurance is an increase compared with the 1978 survey results, when 5.9% of the claims were outside the coverage.

The increase may be due to exclusions attached to D&O policies in recent years, including exclusion of illegal payments to public officials, antitrust violations or claims arising out of real estate investments," suggested Wyatt's Warren Brockmeier, author of the survey.

In 195 of the 369 claims, individual claims were reported to be reimbursable by the corporation and 22 partially reimbursable. In 35 or 9.5% of the claims, individual claims were not reimbursable. But in 108 or 29.3% of the claims, reimbursement of individual claims remains undecided compared with uncertainty of insurance coverage for 22% of the 369 claims.

"In spite of criticism of the vagueness of coverage under D&O policies, it appears that the D&O policy is equally certain in its coverage as corporate bylaws or indemnification agreements," Mr. Brockmeier says. Only about 10% of all claims, however, will fall under the individual D&O section of coverage compared with the corporate reimbursement section.

More than a third (140) of the reported claims are still open waiting trial, and 17 have been tried but are being appealed. Ninety-seven or

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European techniques can be beneficial to U.S. system

WASHINGTON, D.C.—The domestic private pension system could be aided if it borrows some techniques already utilized by foreign pension plans, according to an international policy forum sponsored by the Employe Benefit Research Institute (EBRI).

The results of the forum have been published in a report entitled "Pension Plan Termination Insurance: Does the Foreign Experience Have Relevance For the United States?"

According to Dr. Kenneth Tolo, editor of the publication, associate vp for academic affairs and Professor of Public Affairs at the University of Texas at Austin:

"Clearly, pension program officials and plan administrators can benefit by considering the adoption of foreign approaches in the United States program. Yet, as importantly, they must use caution as they proceed with their international comparisons.

The forum was attended by representatives of Finland, Japan, Sweden and the Federal Republic of Germany and U.S. government, labor, management and investment officials.

The Republic of Germany, Finland, Sweden, and other countries have pension plan insurance programs. According to the EBRI report, "One important characteristic of European insurance programs regarded favorably by conference participants is the acceptance of insolvency, rather than voluntary termination, as the insurable event.

"European participants found it difficult to understand why the insurable event in the United States program should be influenced by the policyholder. As a matter of fact, the Pension Benefit Guaranty Corporation (PBGC), through its current legislative proposals, already appears to be moving toward the European emphasis on insolvency in an effort to mitigate existing plan termination problems."

Wyatt study . . .

Continued from page 50

64.2% of the surveyed companies, almost the same as last year. Only 10% of the respondents carry fiduciary liability as an endorsement to their directors and officers liability insurance policy, which otherwise excludes fiduciary liability. No coverage for fiduciary liability claims was reported by 16.3% of the companies; 2.3% of the companies carry the coverage as an endorsement to their comprehensive general liability insurance policy and 1.7% rely on an unendorsed D&O policy.

The favored limit of coverage is $1 million (24.8%) or $5 million (13.1%). The highest reported limit was $65 million. Of the 822 organizations reporting in both 1978 and 1979, 702 held their limits constant, 15 reduced limits and 105 increased limits, mostly among those with less than $1 million of coverage in 1978 (37.5%).

More than 85% of the companies carry a $1,000 deductible with the next largest group, 7.3% carrying no deductible at all.

Premiums have increased about 11.4% over 1978 levels, with slightly higher increases the norm for policy limits of $1 million or $2 million and smaller increases for higher limits.

Premiums paid for the coverage range from $1,567 for $1 million of coverage purchased by companies with assets of less than $10 million to $54,038 for companies with assets of more than $2 billion purchasing $25 million of coverage.

Premiums increase not only with corporate assets and policy limits, but also with plan assets and number of employes.

American International Group (AIG) and Aetna Life & Casualty have consistently been the two dominant insurers in the field, with AIG holding 34.3% of the policies and Aetna 29.9% in 1979.

Lloyd's of London, which earlier had been more interested in multi-employer trusts, is now concentrating on single employer corporate plans, Wyatt says. Lloyd's has 11.9% of the single employer plan market in 1979, almost double the percentage in 1976.

Others in the primary market include Crum & Forster and MGIC, and to a lesser extent, CNA, First State, Swett & Crawford and St. Paul. GATX, now INAX, is out of the market, but Chubb Group is in with Federal Insurance Co.

Northbrook and AIG underwrite 60% of the excess fiduciary liability brook holding 42.6%. ■

Crain News Service

European techniques . . .

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miums that are related to liability. The domestic termination insurance program, on the other hand, is financed "by a uniform per capita premium.

"The book reserve, or internal approaches to financing benefits that Germany and Sweden have incorporated deserve greater attention in the United States. Interest in the United States in adopting the book reserve approach as a funding alternative generally has been less than enthusiastic, given the current lack of actuarial and accounting standards and an incomplete understanding of the fiduciary responsibility of the plan sponsor," the report said.

However, the report noted that although the unfunded liabilities of U.S. plans are very similar to the German book reserves, the U.S. plans do not have the tax advantages that the German plans do. "German employers have been willing to pay the greater costs necessary to make their system a true insurance program, because they, in turn, are able to benefit from the book reserve system and its associated tax benefits," according to the report.

In addition to these differences that exist between U.S. and some foreign pension systems, there is also the issue of a minimum retirement income target.

"In these other countries a basic public sector retirement program and a mandatory private sector scheme generally form the basis for achieving the established wage replacement rate.

"The conference discussion raised the issue of whether the United States also should move toward a two-tier private pension system, with the first tier mandatory (and joined with Social Security) and the second tier voluntary and used to meet the individual needs of different employment settings."

Number of Persons Covered by Major Pension and Retirement Programs in the United States (000)

	Private Plans		Government-Administered Plans			
Year	With Life Insurance Co.'s	Other Private Plans	Railroad Retirement	Federal Civilian Employes	State and Local Employes	OSDI[b]
1940	695	3,565	1,349	745	1,552	27,622
1945	1,470	5,240	1,846	2,928	2,008	40,488
1950	2,755	7,500	1,881	1,873	2,894	44,477
1955	4,105	12,290	1,876	2,333	3,927	64,161
1960	5,475	17,540	1,654	2,707	5,160	73,845
1961	5,635	18,440	1,662	2,855	5,309	76,295
1962	5,770	19,370	1,643	2,943	5,654	78,953
1963	6,060	19,990	1,664	2,985	5,940	81,035
1964	6,710	20,350	1,650	3,069	6,330	83,400
1965	7,040	21,060	1,661	3,114	6,780	87,267
1966	7,835	21,710	1,666	3,322	7,210	91,768
1967	8,700	22,330	1,641	3,499	7,594	93,607
1968	9,155	22,910	1,625	3,565	8,012	95,862
1969	9,920	24,410	1,620	3,627	8,303	98,012
1970	10,580	25,520	1,633	3,625	8,591	98,935
1971	10,880	26,580	1,578	3,596	9,079	100,392
1972	11,545	27,400	1,575	3,737	9,563	103,976
1973	12,485	28,700	1,582	4,030	10,050	108,268
1974	13,335	29,240	1,589	4,052	10,835	108,854
1975	15,195	30,300	1,574	4,130	11,230	110,085
1976	16,985	31,400a	1,565	4,184	12,000a	113,724
1977	19,240	32,500a	1,572a	4,288a	12,500a	117,482

*: Source: Employe Benefit Research Institute
a: Estimate b: Old Age, Survivors, and Disability Insurance

Wyatt D&O study . . .

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26% of the claims were closed by settlement, 64 or 17% were closed by litigation and 42 or 11% were dropped by the claimant.

Projecting that 60% of claims will be closed with no damages paid, Wyatt estimates that the ultimate claim distributions will fall with 9.9% paid for less than $20,000, 8.1% for $100,000 to $200,000, 5.3% for $20,000 to $50,000, 4.3% for $50,000 to $100,000 and 3.5% for $500,000 to $1 million. While 2.3% of all claims will be paid for $2 million to $5 million, only 1.1% will get damages of more than $10 million, Wyatt says.

To cover these losses, almost three-fourths of the participants reported carrying a split deductible instead of a single deductible, a trend that has grown steadily since 1973.

A split deductible has a fairly modest deductible applicable to the liability of each individual director or officer, an aggregate limit on the total of such deductibles arising out of any one occurrence and a separate deductible applying to the coverage for the corporation for reimbursement to directors and officers.

The majority of all companies with assets of more than $15 million used a split deductible in the 1979 survey compared with the majority of companies with assets of more than $25 million in the 1978 survey.

The most common split deductible applying to individual liability is $5,000 (48%) and $10,000 (35%). Half the companies using a split deductible chose $20,000 as the aggregate deductible, with 11% choosing $10,000, 10% choosing $25,000 and 16% choosing $30,000.

The deductible for corporate reimbursement under the split deductible is scattered from $20,000 to more than $100,000 with 10% choosing $20,000, 21% choosing $25,000, 20% choosing $50,000, 15% choosing $100,000 and 11% choosing $75,000 or more than $100,000.

Those carrying a single deductible most often chose $20,000 (38%), $5,000 (24%) and $10,000 (17%).

These figures represent only a modest change in deductibles compared with the 1978 survey. The single deductible increased just 3%, and under the split deductible the individual deductible dropped 2%, the aggregate deductible increased 1% and the corporate deductible increased 10%.

Above the basic deductible 53.8% of the companies accept a 5% retention on losses, up from 51.3% in 1978. But only 18.5% of the companies accept a 5% retention on losses up to the policy limits, down from 21.8% in 1978.

The most frequently reported policy limit is $10 million, as it has been since 1976 when $10 million replaced $5 million as the favored limit of coverage. The average limit in the 1979 survey of $10.4 million is a 10.4% increase from 1978.

Almost 25% of the 1,337 participants in the study carrying D&O insurance had limits of $15 million or more, compared with 20% last year. The highest reported limit was $75 million, with 16 companies reporting limits of $50 million or more, twice the number in the 1978 survey.

Classed by industry, the largest 100 industrials tend to carry the highest limits averaging $26.1 million, followed by the utilities carrying an average of $24.5 million and the next largest 100 industrials carrying an average limit of $20 million. Life insurance companies carry the lowest average limit of $12 million.

Premiums paid for D&O insurance, generally underwritten by the excess/surplus market, remained unchanged for 40.7% of the surveyed companies. Another 15.7% of the companies reported premium changes of less than 5% up or down. Only 7% of the companies reported premium reduction of 5% to 80% while 36.6% reported premium increases ranging from 5% to more than 300%.

The most frequent premium increase was 5% to 20% (11.3% of companies), followed by 20% to 40% (10.8% of the companies). Thirty-seven companies reported premium increases of more than 100%.

Within industries, finance and leasing companies have suffered the highest premium increases recently and premiums charged utilities are going up because of emerging environmental action issues.

D&O premiums charged merchandisers have leveled off from the sharp increases after W.T. Grant went bankrupt and was sued. Premiums charged manufacturers may be going down.

Generally, premiums are back to the 1974 level after dropping in 1975 and 1976 in the heat of competition for D&O business. The good D&O risk still enjoys some competition for its account, Mr. Brockmeier notes.

But organizations with higher policy limits are experiencing premium increases of about 20% because losses have penetrated policy layers of more than $5 million. Companies with apparent problems with stockholder suits, public litigation or other matters spurring D&O claims have sometimes experienced sharp increases in premiums.

Wyatt concludes, however, that

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Percentage of Participants Using Various Methods of Insuring Fiduciary Liability

Corporate Assets Coverage	By Fiduciary Policy	By Endorsement To D&O Policy	By Endorsement To CGL Policy	Rely On Unendorsed D&O	No Coverage Except Emp.Ben.Liab.	No
Under $25 Million	46.0%	4.2%	4.8%	3.2%	10.0%	31.7%
$ 25-$100 Million	61.0	6.4	2.9	1.7	7.6	20.3
$100-$400 Million	67.8	10.7	2.2	1.7	4.1	13.5
$400 Million-$1 Billion	67.2	12.6	2.0	1.6	4.8	11.7
Over $1 Billion	70.4	14.5	0.5	1.1	3.0	10.4
TOTAL	**64.2%**	**10.0%**	**2.3%**	**1.7%**	**5.5%**	**16.3%**

Source: The Wyatt Company

Wyatt study . . .

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the general level of premium adjustment by underwriters is not excessive. But Mr. Brockmeier also warns that if a sharp recession affects the general economy, sizable losses may ensue and general premium levels may rise sharply.

Now, the average premium paid for D&O liability insurance ranges from a low of $3,066 for $1 million of coverage purchased by a company with less than $10 million in assets to $184,538 for $40 million of coverage purchased by a company with over $2 billion in assets.

As would be expected, the premiums generally increase with company size and amount of insurance purchased. For example, companies with assets of between $150 million and $250 million pay an average of $10,546 for $3 million of D&O insurance, $15,291 for $5 million of coverage, $24,596 for $10 million of coverage, $33,923for $15 million of coverage and $27,809 for $20 million of coverage.

Companies with over $2 billion in assets pay an average of $43,524 for $5 million of coverage, $69,273 for $10 million of coverage, $114,460 for $20 million of coverage and $124,325 for $40 million of coverage.

American International Group continues to dominate the insurers underwriting D&O insurance with 29% of the primary policies and 27.4% of the excess policies. Swett & Crawford and CNA are holding their shares of the market in the top six underwriters. Swett & Crawford has 15.5% of the primary policies and 9.8% of the excess. CNA has 11.5% of the primary policies and 4.3% of the excess.

Fiduciary Responsibility Premium by Policy Limit and Plan Assets
(For Limits with Five or More in Group)

Plan Assets & Policy Limits	Number Reporting	Lowest	First Quartile	Median	Third Quartile	Highest	Average 1979	Average 1978
Under $1,000,000								
$ 500,000	11	$ 660	$ 875	$ 924	$ 1,257	$ 3,000	$ 1,183	$ 1,303
1,000,000	30	197	1,159	1,344	1,935	4,000	1,541	1,433
5,000,000	8	800	800	1,391	3,173	3,173	1,788	2,982
$1,000,000 to $2,000,000								
$ 500,000	6	500	715	1,418	2,200	2,650	1,484	N.A.
1,000,000	46	650	1,159	1,353	1,925	5,846	1,619	1,615
2,000,000	12	1,805	1,875	2,130	2,800	4,625	2,490	2,204
3,000,000	6	1,418	1,968	3,450	4,972	5,987	3,466	2,965
5,000,000	6	572	1,265	2,729	6,279	12,950	4,421	3,341
$2,000,000 to $5,000,000								
$ 500,000	5	1,141	1,141	1,440	1,738	1,738	1,440	1,218
1,000,000	81	1,000	1,605	1,902	2,295	11,000	2,247	2,406
2,000,000	31	1,550	1,834	2,238	2,870	30,000	3,378	2,738
3,000,000	23	1,860	2,300	2,967	3,408	4,900	2,954	3,144
5,000,000	29	305	2,706	3,981	5,530	80,000	7,231	4,609
10,000,000	6	1,845	6,923	12,000	29,000	43,000	16,769	N.A.
$5,000,000 to $10,000,000								
$ 1,000,000	64	$ 600	$ 2,000	$ 2,357	$ 2,750	$16,272	$ 2,656	$ 2,414
2,000,000	13	985	2,514	3,330	4,050	4,138	3,155	3,644
3,000,000	27	542	2,981	3,696	4,500	8,200	3,827	3,801
5,000,000	50	500	3,689	4,260	6,176	9,940	4,968	5,284
10,000,000	11	3,399	6,172	7,850	9,270	10,000	7,513	6,310
$10,000,000 to $25,000,000								
$ 1,000,000	53	416	2,504	3,095	3,950	8,000	3,381	2,921
2,000,000	15	2,600	3,200	3,790	4,300	5,156	3,834	3,796
3,000,000	13	3,146	4,112	4,635	5,579	7,684	5,026	5,283
5,000,000	112	1,366	4,465	5,514	6,843	24,000	6,070	6,209
10,000,000	28	1,910	7,000	8,400	9,600	14,000	7,920	9,796
$25,000,000 to $50,000,000								
$ 1,000,000	19	1,002	3,000	3,500	5,029	9,250	4,210	4,604
2,000,000	5	5,100	5,403	5,720	7,492	9,216	6,302	6,531
3,000,000	5	3,027	4,731	7,500	10,040	10,579	7,408	6,864
5,000,000	76	1,667	6,663	7,400	9,000	19,306	7,951	7,975
10,000,000	24	2,333	8,000	10,630	13,500	21,083	11,060	12,476
15,000,000	6	9,175	11,400	14,900	16,901	17,000	14,046	12,632
20,000,000	6	11,077	15,474	20,800	31,500	36,000	22,950	21,328
$50,000,000 to $100,000,000								
$ 3,000,000	6	$ 4,995	$ 6,000	$ 8,100	$10,565	$20,000	$ 9,627	$ 7,198
5,000,000	53	1,375	6,980	8,300	10,238	18,969	8,797	9,450
10,000,000	46	5,075	10,466	13,850	16,375	24,659	13,730	14,349
15,000,000	10	16,135	17,500	23,400	28,000	39,000	24,186	19,452
20,000,000	5	8,500	17,250	32,000	35,625	36,000	27,550	30,983
$100,000,000 to $250,000,000								
$ 1,000,000	5	366	2,133	5,496	10,176	13,261	6,155	N.A.
5,000,000	24	6,740	10,218	12,000	17,398	30,000	13,652	14,751
10,000,000	31	4,140	12,177	18,260	21,943	49,000	18,144	24,215
15,000,000	26	8,667	21,250	23,000	29,650	45,000	25,110	24,857
20,000,000	19	3,500	23,184	30,000	35,000	56,000	29,657	32,888
25,000,000	9	22,500	30,577	39,000	44,315	85,000	41,234	N.A.
$250,000,000 to $500,000,000								
$15,000,000	6	20,000	21,460	27,744	36,660	39,000	28,797	36,254
20,000,000	11	27,200	35,310	42,000	49,600	63,660	44,333	36,791
$500,000,000 to $1,000,000,000								
$20,000,000	5	30,228	33,114	40,500	65,925	81,000	47,716	N.A.
Over $1,000,000,000								
$10,000,000	5	$17,851	$35,926	$56,417	$120,000	$145,000	$73,654	N.A.
20,000,000	6	24,900	30,314	35,945	40,000	77,500	40,767	$38,622

Source: The Wyatt Company

Crum & Forster is growing steadily in D&O insurance, particularly among small and medium sized companies. It has 12.1% of the primary and 18% of the excess market. MGIC has increased its D&O underwriting to 5.1% of the primary policies, especially for financial institutions. Midland is underwriting more D&O insurance for hospitals, but has only 1.4% of the primary policies.

Lloyd's of London, the best known traditional D&O underwriter, is losing more of its share of both the primary and excess market, except for very large accounts. Its primary market share is down to 10.5% from 13% last year and its excess market share has fallen off to 23.1% from 26.3% last year. Before 1978, Lloyd's underwrote more than a third of the excess D&O insurance policies reported to Wyatt.

But Lloyd's is still a major reinsurer of the domestic D&O insurance underwriters, Mr. Brockmeier notes.

By industry, AIG is the major underwriter of D&O insurance for construction and real estate, insurance companies, manufacturers, merchandisers, petroleum, professional services, publishing and communications and utilities. It also dominates in the market for companies with more than $25 million in assets.

Swett & Crawford is the major underwriter for transportation companies, using the Harbor and Buffalo Re. MGIC dominates the banks and Midland the hospitals. Crum & Forster Group dominates the companies with less than $25 million in assets with 25% of the policies, but AIG is close behind with 22% of the market.

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The 1979 Wyatt Directors and Officers Liability and Fiduciary Liability Survey can be obtained for $60 from The Wyatt Co., 5600 Sears Tower, 233 S. Wacker Drive, Chicago, Ill. 60606. A report on D&O liability trends in Canada is due shortly. ■

LAST UNITED STATES GOLD COIN

$20 and $10 gold pieces were struck in the U.S. in 1933. None of these double eagles were circulated so 1932 is the last collectible date for these denominations. On March 6, 1933, President Franklin Roosevelt discontinued the issuance of gold coins in this country and removed them all from circulation.